The Syrian economy in 1945 was distinguished by its relatively low 433
production of a generally poor quality. It lay in a state of decadence and stagnation that could only have been remedied by energetic action by the authorities in power. It was a virgin country waiting for people willing to work hard to develop its resources in the fields of agriculture, industry and commerce.

Agriculture in Syria occupies first place, whether considered 433
from the point of view of production or the number of those who 241
earn a living from it. It produces the largest part of the country's exports and supplies the national industries with raw materials. But, despite its preponderance over other economic activities farmers remained up to 1945 dependent on ancient methods, and were ignorant of such modern techniques as the use of machines and fertilizers. Syrian agriculture suffered helplessly from the crop rotation system, from natural pests, insects and diseases, from rain variations and the unscrupulousness of money lenders.

As to industry, it was in its infancy, still feeling its way and 433
lacking encouragement, protection, adequate studies, knowledge and experience.

Nor was commerce in a better situation than agriculture and in- 439
dustry. During the second world war, Syrian trade lost its relations 457
with many of the belligerent countries, and emerged from the war crippled and hampered by the restrictions of exchange control. In addition, the direction of Syrian commerce was not in the hands of Syrian nationals; the larger part of foreign trade, both exports and imports, was handled through Beirut. As a result Syrian merchants lost direct touch with countries abroad and Syria became in effect an internal market dealing in retail with neighbouring markets. Commercial agencies were in the hands of non-Syrians up to the extent of 95 per cent of the total. To complete the picture we should mention that a large part of banking operations with foreign countries took place in banks situated outside Syria, and that the purchase and sale of foreign exchange accruing to Syria was effected in the Beirut market. To conclude, control of Syrian external trade was in non-Syrian hands and the Syrian economy, in consequence, was forced to lose large sums in the form of expenses, commissions, and profits which were paid abroad for mediation in purchase and sale transactions.

14. During the period under discussion the Syrian Govern- 185
ment exercised great effort with satisfactory results; it made a be-

The noticeable rise in the rates during 1951 and 1952 is largely due, we believe, to the conditions arising from the Korean war. 457

Planning and Administration of Projects

24. It is difficult to say that there existed in Syria a development policy with definite aims and worked-out plans during the period 1945-1952. Development projects were studied and approved piece-meal under pressure of need and circumstances, without reference to any general programme, and without being subjected in their administration, execution, or the management of their financial and economic effects, to one single authority that could direct the whole operation and create the conditions for its success. The projects had nothing in common except the great need felt for them and the necessity of finding the required funds. 652

25. Development projects were approved in one of two ways. First, by including them in the body of the state budget and making the necessary appropriations. As most of these projects could not be executed within one financial year, the Budget Law provided for the transfer of such appropriations to a special account outside the budget called the Development Programmes Account. The purpose was to prevent the cancellation of unused appropriations at the end of the financial period, as is normally done in a yearly budget. Secondly, the projects that were financed from available treasury funds or from Bank of Issue loans were approved individually by issuing for each project a special law, which established definite principles for its administration and execution and which authorized the government to borrow the necessary funds either from the available treasury funds or from the Bank of Issue.

26. The method followed up to now in approving, financing, and executing development projects is not free from certain defects and pitfalls. These are the main criticisms we have to make. First, it does not enable the government to have a complete picture of all the projects that the country needs, or of the cost and the period required for their execution, so that it can make a priority list and earmark definite financial sources for each one. Without such over-all comparison, the government cannot give each project the priority it deserves according to its productive value, the speed of its execution and the funds it requires. Moreover, without prior study of the projects, and a stock-taking of its financial

652 will not however be complete. For part of it will be saved and another part will find its way to the treasury in the form of taxes and dues ; a third part will be used to pay for imports from abroad, in which case it will find its way back to the Bank of Issue and will be withdrawn from circulation. In these three cases no inflationary effects follow from the new issue. But the remaining part, which is used to purchase consumption goods and services, will no doubt create additional demand for the goods and services that form the total national output. If the national economy has unemployed factors of production and is in a conditon to meet the extra demand, then no inflationary effects will appear. If the national economy, on the other hand, fails to increase production so as to meet the additional demand for goods and services, then the economy will move towards inflation.

From another angle, the effect of the extra purchasing power appears in the balance of payments, for the additional demand is not limited to national goods and services, but extends beyond them to foreign goods and services. It is therefore necessary to know whether the country's gold and foreign exchange reserve will allow the satisfaction of the extra demand for foreign currencies, both from the development projects and from the people whose incomes are increased by the new issue. It is also obvious that a rise in the consumption of local products may lead to a reduction in exports, if national production cannot meet all the new demands.

457 652 39. Foreign private capital can be utilized in two ways: in helping to establish or finance private projects ; and in paying in foreign exchange for imported equipment required for government development projects. In this case, foreign banks would give medium-term credit for purchasing equipment from their country and accept repayment by instalments over a period of three to five years. Thus the government can pay for its imports in instalments over five years rather than in one lump. The merit of this method in protecting the foreign exchange value of the national currency and in avoiding inflationary effects is obvious. Having recourse to foreign private capital for the purpose of financing expenditure on development projects undertaken by the government seems to us, however, unlikely to be adopted. For such funds could not be invested in the country except under strict guarantees and difficult conditions.

40. Foreign government loans on the other hand have a po-

litical aspect that we do not intend to deal with here. Limiting the discussion to the economic aspect, we have to distinguish between two situations: the use of foreign loans to finance expenditure abroad that has to be paid for in foreign exchange; the use of foreign loans to finance local expenditure due in local currency. 652 457

In the second case, the borrowed foreign exchange is put in the currency cover and an equal sum in currency bills is issued by the Bank of Issue and put into circulation as the need arises for covering local expenditure in national currency. Despite the fact that the issue of these paper bills is balanced by foreign exchange in the cover, its monetary effects are in no way different from the case of direct borrowing from the Bank of Issue for meeting local expenditure. Thus, what is said of financing development projects by borrowing from the Bank of Issue applies in full to foreign loans that are used to meet local expenditure. For this reason we think it unlikely that recourse would be made to foreign borrowing, because its financial and political conditions are generally more burdensome than those of direct borrowing from the Bank of Issue.

In the first case however, when foreign loans are used only to pay for that part of development expenditure due in foreign exchange, there is no doubt that the method has sound monetary effects; it completely solves the problem of securing foreign exchange needed for development projects, while at the same time saving the country from the dangers of inflation and preventing a fall in the external value of the national currency. Nevertheless, we do not recommend the use of foreign loans except to the extent that the country is in real need of foreign currencies. If the country has a sizeable amount of foreign exchange or if it can secure the necessary exchange through restricting its inessential imports, then there would be no necessity for foreign loans which, besides laying a burden of interest upon the national economy, may give rise to political difficulties.

41. It becomes clear from the above that the effects of a new issue of paper currency depend in the first place upon the proportion of the new issue saved and absorbed by the treasury, to the part that is used to pay for additional imports; secondly, upon the condition of the national economy and its capacity to expand production so as to satisfy the extra demand for goods and services; finally, they are dependent upon the balance of payments position 652

11: Hourani S-4 (no date) 1946 MD1 Syria MD1

433 such goods as Syria's few modern factories produce, have
439 between them severely limited the Syrian and Lebanese export trade.

439 According to the official statistics for 1938, the latest year
457 for which detailed figures are available, the main countries to which the French Mandated Territories exported goods were Iraq, Palestine, France, Transjordan, Italy, the United States and Egypt, in that order.[1] Much the most important exports were vegetable products and textile materials and goods. The total value of exports and re-exports (excluding the oil of Iraq) was some 892,232,000 francs (£5,028,000).[2] The chief countries from which goods were imported were Great Britain, France, Japan, the United States, Germany, Italy and Roumania. The main goods imported were textile materials and goods, metals and metal work, vegetable and mineral products; and the total value of imports was 1,707,696,000 francs (£9,059,000).[2] There was thus an adverse trade balance of 815,464,000 francs (£4,031,000) which was largely offset by the revenue from certain types of invisible export. For example large sums were brought into the country by the many thousands of tourists who visited it, and by the Egyptians, Palestinians, Iraqis and others who spent the summer in the hill-resorts of Lebanon. Again, considerable sums of money were sent home by emigrants in America and elsewhere; this item is now much less important than during the past, but it is still not negligible. A third type of invisible export was the foreign capital invested in the country, and foreign credit granted to merchants. In spite of these invisible exports, however, both the size of Syrian and Lebanese foreign trade and the discrepancy between imports and exports are unsatisfactory. The situation can be improved, first by an increase and diversification in production, and secondly by the discovery of external markets for the goods produced, either in the neighbouring countries or elsewhere.

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511 Syria and Lebanon are comparatively poor countries, and in spite of the changes which have taken place the standard of living in the countryside and among the poorer classes in

[1] For statistics of foreign trade, see Ministère des Affaires Etrangères, *Rapport, 1938*, pp. 199-202.

[2] Calculated at the rate of 177.45 francs, to the pound sterling. This was the average rate for December, 1938.

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EXCHANGE RATES•

457

1 Syrian £ = $0.28 U.S.
1 million £S = $280,000 U.S.
$1.00 U.S. = £S 3.575
1 million $U.S. = £S 3.575 million

• Free market rate, average for 1954, on which mission's calculations are based.

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Table 1,[3] reflects, of course, the general structure of the economy. As already indicated, raw cotton represents well over a third of Syria's exports, and cereals, livestock and raw wool almost another third. In recent years, however, textiles have accounted for nearly one-tenth of the value of exports. As might be expected, imports are more diverse in character. Textile materials and manufactures, machinery, petroleum products and fruits and vegetables are among the principal imports; iron and steel, chemicals and pharmaceuticals, precious metals, motor vehicles and timber are also important.

Despite the dissolution of the Syrian-Lebanese economic union, Lebanon has remained Syria's principal trading partner, taking almost a quarter of Syria's exports and contributing around 10% of its imports. Three countries—Lebanon, France and the United Kingdom—buy over half of Syria's exports; and five countries—the United States, the United Kingdom, France, Lebanon and Western Germany—supply between 50% and 60% of its imports. In the three years 1951-53 about 41% of Syria's exports was marketed in other Arab countries which, however, supplied only 18% of Syria's imports.

Syria's normal trade deficit is offset, on the current account of the balance of international payments, by local expenditures and oil transit payments made by foreign oil companies, by UNRWA[4] expenditures in Syria and by emigrant remittances. On capital account, there is evidently some continued net foreign investment, particularly by Lebanese, and some repatriation of capital by Syrians returning to their homeland. A considerable volume of bank funds has flowed to Syria partly because there has been a shift in the financing of Syria's foreign trade from Beirut to Aleppo and Damascus and partly because foreign banks have needed more funds to meet the credit needs of an expanding economy. Although the movement of these bank funds shows sharp seasonal fluctuations, there has apparently been a general upward trend in the amount of foreign banking advances in recent years. Total foreign exchange receipts and payments were not far out of balance in 1950, 1951 and 1952, but in 1953 Syrian gold and foreign exchange reserves, valued at the free rate, increased by £S 51 million. Foreign exchange and gold reserves at the free rate rose from £S 114.3 million at the end of 1951 to £S 157 million at

[3] See also Annex A, p. 213 *et seq.*

[4] United Nations Relief and Works Administration, charged with the care of Arab refugees from Palestine.

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457 the end of 1953, even though Syria paid off during these years all but £ 10.2 million of a £S 44.6 million debt to Lebanon and repaid $1,454,123 to the International Monetary Fund.

Transport

489 The transport system which carries the country's commerce reveals many deficiencies. Although Syria is served by three railways, all were built before the breakup of the Ottoman Empire and therefore do not adequately serve the needs of an independent Syria. The gauges are not uniform, and there is no direct rail connection between Damascus and Aleppo. The port of Latakia, which handles most of Syria's overseas trade, is served only by roads. The railways in 1953 actually carried slightly less cargo than before the war. All of the substantial increase in traffic since the prewar period has been absorbed by motor transport. The number of all types of motor vehicles rose from 3,736 in 1939 to 13,146 in 1953, and the number of trucks from 873 to 4,742. Even such bulky commodities as cereals are now transported mostly by road. Yet the road system is also far from adequate and transport costs are very high.

504 Aside from Banias, which ships only oil transmitted by pipeline from Iraq, Syria has only one major port, Latakia. The volume of traffic at this port, which is still in process of development, has grown rapidly and amounted in 1953 to 90% of the overseas export and 46% of the overseas import trade of the country. The Lebanese ports of Beirut and Tripoli accounted for the balance. In the same year, however, almost half of the total volume of Syria's foreign trade went overland, principally to and from Lebanon.

Money and Credit

652 457 The monetary and banking system of Syria is still in the process of development. Although a new monetary statute enacted March 28, 1953 envisages the establishment of a government central bank within a few years, the note-issuing function meanwhile remains with the Banque de Syrie et du Liban (BSL) which first received the right to issue currency during the French mandatory regime. Gold and foreign exchange in the monetary cover is bought through the intermediary of the Exchange Office, an autonomous government agency established in April 1952. This

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Office is responsible for enforcing foreign exchange controls and regulating the foreign exchange market. Although it has no monopoly, the Office is the principal buyer and seller of foreign exchange either via the commercial banks or directly. While recognizing the postwar depreciation of the Syrian pound from the nominal official rate of £S 2.20 to the dollar, it has intervened to smooth out the fluctuations in the *de facto* or free rate arising from the seasonal nature of the country's exports. Its stabilization operations were initiated at the end of 1952 when it began publishing a daily bulletin of the rates at which it was prepared to buy and sell. In 1953 it broadened its stabilization operations by setting rates for forward transactions. In the initial period it succeeded in narrowing the fluctuations, and since July 1953 it has kept the dollar rate at £S 3.575. Its operations were undoubtedly instrumental in preventing the favorable trend in the balance of payments during 1953 from resulting in a marked appreciation of the Syrian pound, which would have adversely affected Syria's exports. The Exchange Office has allowed rates of other currencies to fluctuate more widely, in accordance with their strength relative to the dollar as reflected in free markets.

Virtually all foreign exchange transactions now take place at the market rate as regulated by the Exchange Office. Foreign oil companies, however, are still required, pending the settlement of a conflict over oil transit payments, to buy Syrian pounds at the official rate for the purpose of meeting their local expenditures; and exchange required for imports of petroleum products is also furnished at the official rate.

Since 1948 foreign exchange restrictions have been progressively abandoned, so that all payments can now be freely made. Although imports are still subject to prior license, exchange is readily made available unless imports are restricted or prohibited for protectionist reasons. No restrictions exist on transfers of capital or payments of invisibles. Most exports are licensed partly to protect domestic consumers and partly to enforce repatriation of foreign exchange for shipments to all destinations except Arab countries. The requirement of repatriating foreign exchange was instituted to provide the Syrian market with a regular supply of foreign exchange.

The Syrian economy is served primarily by foreign banks. Of the 15 commercial banks accredited at the beginning of 1954, 10, including all the larger institutions, were foreign: five were French, two Jordanian, and one each Iraqi, British and Egyptian. The BSL, as the largest commercial

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plant might be able to undertake the production of these items as well as the improved types of agricultural implements which, in accordance with our proposals, might be developed for use on Syrian farms. It should be emphasized, however, that future industrial expansion will need to be more selective and that projects will require careful technical and economic scrutiny to establish their suitability for Syria.

We conclude, therefore, that improvement in efficiency and more careful, selective expansion are the principal problems which Syrian industry faces. To meet these problems we have a number of recommendations involving (1) increasing exposure of industry to foreign competition, (2) development of a larger market for industrial products, (3) establishment of an investment bank to provide technical and financial assistance to industry and (4) improvement in vocational education.

Protection of Industry

Syrian industry today is in many ways shielded against foreign competition. Protection of this type is a relatively recent phenomenon, dating only from 1949. Before that time industry had developed with little or no government assistance. Prewar tariffs were moderate and essentially revenue-producing in character. Virtually the only concessions to industry were lower duties on plant and equipment and raw materials. The rapid expansion of mechanical manufacturing occurred at a time when there was little competition from abroad. During the war imports were largely impossible and in the immediate postwar years the demand for manufactures was such that rising imports were not incompatible with the continued development of domestic output. With the relaxation of foreign exchange restrictions in 1948 and an increasingly abundant supply of manufactures in the world market, Syrian industry finally began to suffer from foreign competition. In 1949 the government came to the rescue by providing industrial establishments with facilities to obtain state-guaranteed loans at low interest rates from the issue department of the Banque de Syrie et du Liban. Pressure for more effective protection of industry was instrumental in terminating the customs union with Lebanon, which as a trading nation was interested in keeping tariffs moderate. Following the dissolution of this economic union in March 1950, import duties were generally raised and in many cases almost doubled. In 1951 tariffs on such articles as textiles, glass and soap were again sharply increased and the

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first import embargoes were imposed. In 1952 a large number of imports were prohibited and a *de facto* sugar trading and manufacturing monopoly was instituted. The following year, however, the Minister of Economics was deprived of discretionary authority to impose embargoes, and a number of prohibitions were subsequently lifted. Even so, import embargoes are still applied to such consumer goods as cotton hosiery, socks and stockings, "job lot cloth," second-hand cotton and silk clothing, men's shirts, vegetable oils, various soaps, margarine, canned vegetables and fruits, confectionery, glass and glass products, match boxes and match wood, matches, pins, wooden furniture and boots and shoes. These protective measures have been supplemented by controls over exports of certain raw materials designed to give domestic industry preferential access to available supplies. Importation of ginning machines was prohibited to safeguard existing enterprises, and imports of second-hand looms and knitting machines were stopped, to insure the installation of modern machinery. In 1952 the government also initiated licensing of industrial establishments for the purpose of preventing overexpansion and ill-considered ventures. During the same year more positive assistance was provided by enacting a law for the encouragement of industry which extended a number of benefits to new enterprises and extensions of existing plants.

The mission has no doubt that some protection of industry is justified, particularly in underdeveloped countries which need time to raise labor, technical and managerial skills to a level approximating those in the more advanced industrial countries. As we have already pointed out, the types of industry developed in Syria are generally of a character to warrant the expectation that they can ultimately stand on their own feet. This goal, however, will not be reached as long as production is as effectively insulated against outside competition as at present. The present system of exaggerated protection does not provide a sufficient incentive to raise efficiency and productivity. For Syrian consumers it involves excessive sacrifices in the form of higher prices and poorer quality. In recent years, for example, the Syrian government has found it necessary to protect consumers by controlling the prices of such articles as vegetable oils, yarn and cement.

In view of these considerations we recommend in particular that the present import embargoes be abolished. In some cases it may be necessary to substitute import duties higher than those now included in the tariff schedule, but in those instances prohibitive rates should be avoided and

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433 provision made for gradual reduction of the duties. At the same time we
654 suggest that the whole tariff schedule be re-examined. By and large it
651 cannot be said that the general level of tariffs is excessively high, particu-
457 larly since ad valorem rates are levied on imports valued at the official rate of exchange, and this entails an undervaluation of about 40% compared to the actual exchange rate. In fact, we recommend elsewhere that tariff rates be assessed on the basis of actual foreign exchange rates for the purpose of increasing government revenues. This should not be construed, however, as a proposal to raise all tariffs irrespective of their nature. On the contrary, we would suggest that, as part of the general revision of the schedule, those rates which are primarily protective in character should as far as possible be reduced for the purpose of encouraging outside competition and lowering prices. If necessary, such reductions could be graduated over a period of time.

434 *Possibilities of a Larger Market*
648

The expansion and, above all, the diversification of industrial output in Syria is restricted by the rather small domestic market. In a country of only 3.6 million people with low purchasing power it is generally possible to manufacture only a limited range of articles which are used widely enough to warrant production on an economic scale. Broader industrial opportunities are likely to emerge only if a larger market is initially available. In the case of Syria it should be possible to establish such a market in cooperation with other Arab countries, all of which suffer from a similar handicap in the development of their industries. Over recent years the Arab countries have increasingly stressed their community of interest and the need for closer cooperation. The field of industrial development offers a particularly challenging opportunity for common endeavor. We do not suggest, of course, that the types of industrial enterprises to be developed by each country should be the subject of joint government decision. There should be consultation in cases where particular ventures are to be launched with special government assistance. In the main, however, the location and development of industry should be decided by the free play of competitive forces operating in a larger, common Arab market.

To a limited extent the Arab countries have already taken steps to develop such a market. Syria has concluded bilateral agreements with Lebanon and Jordan which free certain products from import restrictions

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466 to curb at least the abuse of child labor which exists in most small shops. This might be done by occasional spot checks. One of the difficulties, however, is the inadequacy of the enforcement staff of the Directorate of Labor and Social Affairs in the Ministry of Economics. At the beginning of 1954 there were apparently only eight inspectors assigned to the enforcement of the labor code. We urge that the number be increased and that for this purpose an additional £S 325,000 be made available to the Labor Directorate over the next six years.

The Tourist Industry

457 485 In the discussion of the proposed investment bank, we have already indicated that this institution might assist in financing hotels, as well as manufacturing industries and agriculture. Although this chapter focuses on the problem of developing manufacturing, it appears appropriate to mention here also the possibilities of the tourist industry. Syria has much to interest the tourist from the West. On its soil many civilizations and [172] cultures have flourished and left their imprint. There are countless archaeological sites which are still yielding up treasured relics of the past, numerous ancient Greco-Roman and early Christian cities, fascinating ruined Christian churches and imposing mosques, old Crusader castles and Arab forts. Both Aleppo and Damascus, which vie with each other in the claim to be the oldest continuously inhabited city in the world, intrigue the tourist with their blend of the ancient, the picturesque and the modern.

In the postwar period the airplane has greatly extended the orbit of travel for the American and West European, and rising standards of living have enabled many more to travel abroad than before. In Greece, for example, the number of foreign tourists rose from about 33,000 in 1950 to almost 76,000 in 1953, and the per capita expenditure is said to have doubled during this period. Unfortunately, the mission was unable to obtain figures on the total of foreign travellers visiting Syria, but the number has undoubtedly increased significantly. Many travellers to the Holy Land now stop over in Syria. This tourist trade could be greatly expanded if a concerted attempt were made to advertise the attractions of Syria and to improve the inadequate accommodations available to foreigners.

More and better hotels, good communications and adequate preservation and presentation of historical and cultural monuments are all impor-

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tant element in a program to attract more tourists. At present Damascus is the only Syrian city with first class hotel accommodations and even here there is an acute shortage. Such cities and towns as Aleppo, Latakia and Palmyra all urgently require good hotels for tourists and other travellers. Construction and operation of hotels should, of course, be left to private enterprise encouraged by the government and assisted by the projected investment bank. There are, however, a number of places of potential importance to the tourist trade where rest houses and restaurants rather than hotels are needed. Such facilities are not likely to be sufficiently profitable, at least in the beginning, to attract private investment. We suggest, therefore, that the government spend approximately £S 500,000 on the erection and operation of rest houses and restaurants at such locations as Ras Shamra (site of ancient city of Ugarit), Saint Simeon (ruins of old city and monastery-church in Djebel es Smaane), Al Rasafa (Christian monuments and Moslem palace), Doura Europos (ancient city), Krak des Chevaliers (crusaders' castle), Tartous and Soueida. As a UNESCO mission has suggested, some of these could probably be constructed inside existing historical buildings, thus leaving the appearance of the site undisturbed and enhancing their appeal to tourists.

The interest of tourists in the historical and archaeological treasures of Syria also provides a definite economic justification for increasing the expenditures of the Directorate General of Antiquities. This government department has jurisdiction over museums, historical monuments and archaeological excavations. It finances its operations in part from its own receipts, but the government has during the last two years contributed, on the average, £S 763,000 to its annual budget of a little over £S 1 million. In 1954 its total planned investment was about £S 450,000, of which £S 280,000 was devoted to museums, £S 120,000 to the reconstruction of monuments and £S 50,000 to excavations. Damascus possesses a notable museum of which the country can well be proud, but about £S 1 million is still required for its completion. The Aleppo museum, which houses many fine treasures, admittedly needs a new building at a cost of £S 1 million, and appropriate regional and local museums would help the visitor to visualize the cultural heritage and archaelogical finds of particular localities. Although all of this could not be realized within the 1955-60 period, we suggest that £S 2.4 million be provided to complete the Damascus museum, establish a few local museums in such places as Ras Shamra and Palmyra and at least start the new building in Aleppo.

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457 Proper maintenance and repair of monuments is perhaps even more urgent, 658 since there is considerable deterioration at present. We accordingly recom- 172 mend that expenditures for this purpose be raised, on the average, approximately 50% over the next six years. A similar increase might be contemplated for excavation work which, as in the past, will presumably be carried out in cooperation with foreign archaeological missions. All this will require an increase in the subsidies paid to the Directorate of Antiquities out of the government budget to an average annual amount of approximately £S 950,000. The gradual growth in the Directorate's own receipts will probably suffice to cover necessary increases in administrative outlays.

[491] Poor roads now impede access to many interesting historical monuments. In addition to the recommendations on the national road network made elsewhere, we believe Syria would be well advised to spend about £S 1.5 million on the improvement of local roads of importance to the tourist trade. The access roads to the Krak des Chevaliers and Saint Simeon should have the highest priority.

457 Within the not too distant future the government should contemplate the establishment of a special office charged with the promotion of tourism. The cooperation and financial support of business groups interested in the tourist trade might well be enlisted. It should not only seek to interest the foreign tourist in the attractions of Syria, but also to make the Syrian people and Syrian officials more aware of the importance of the tourist trade and of making the tourist genuinely welcome.

Government Expenditures on Industry

439 664 Although industry is preeminently a field for private enterprise, we have made in this chapter a number of recommendations entailing additional government expenditures. For the period 1955-60 these would total about £S 20.5 million, allocated as follows (in thousands of Syrian pounds):

	Total	Average annual
Manufacturing		
Investment bank	10,500	1,750
Industrial zones and workshops	1,800	300
Enforcement of labor code[a]	325	54

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652 Treasury.[41] The other type of public deposits which has risen rapidly consists of various autonomous government enterprises and agencies. A breakdown of these, available only for the end of 1953, is given below (in millions of Syrian pounds):

Exchange Office	6.9
Council of Money and Credit	2.0
PTT	4.3
Power, tramway and water companies	4.5
Railways	1.2
Port of Latakia	0.9
Agricultural Bank	2.2
Cereals Office	19.7
Tobacco Monopoly	4.6
Others	2.9
Total	49.2

The drawing down of public deposits is likely to have the same effect as deficit financing, particularly since it is doubtful that a decline in public deposits would be accompanied by a contraction of bank credit to the private sector. The government should regard these Treasury balances as a resource in lieu of, rather than in addition to, borrowing from the banking system; it should approach their use with the same caution it employs in considering deficit financing. The use of the accumulated balances of autonomous public entities should also be carefully watched. Finally, it would be well to require that all public deposits be kept with the Central Bank or, in the interim, with the BSL, so that the government can, if necessary, take effective steps to ensure that they do not have an undue effect on bank credit. Recently there has been a tendency to shift public deposits to other banks where it will be less easy to control their impact on credit.

652 648 457 *Foreign Aid and Borrowing*

Our expectation that additional resources of £S 175 million to £S 215 million may be available from abroad rests on the assumption that Syria

[41] The mission was unable to obtain information on the extent to which the Treasury is holding funds for the account of others. The new monetary statute envisages the ultimate establishment of a special Caisse des Depots et Consignations under the central bank to hold such deposits held on behalf of third parties; it is certainly advisable to have a clearcut distinction between the Treasury's own funds and those held in trust for others.

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will be able to borrow for certain development projects and that the Syrian government will accept offers of foreign aid.

Certain projects are likely to merit foreign loans. General economic prospects warrant the expectation that Syria can contract some foreign debt and expect to serve it. At present there is no foreign debt except for the compensation due to the former foreign owners of the nationalized public utilities and a $6 million loan from Saudi-Arabia. Both the immediate and long-term prospects of the balance of international payments appear favorable. While there may be some decline in the price of exported cereals and cottons, continued expansion in the volume of exports, although at a lower rate than in the past, will probably more than offset it. A rapid rise in imports is unlikely to occur as long as monetary stability is maintained. Moreover, foreign exchange policy can be kept sufficiently flexible to enable the government to influence the volume of international payments and receipts.

The Syrian government has so far been reluctant to accept proffers of foreign aid. The United States in 1954 offered to include Syria in its economic aid program, and this offer presumably remains open. We have assumed here that Syria will ultimately consider it advantageous to accept. All other Arab countries have in recent years received such aid apparently without suffering any infringement of their independence. In the last five years the United States has allocated about $111 million in economic and technical assistance to the Arab countries. For 1954-55 alone almost $64 million has been assured to Egypt, Lebanon, Jordan and Iraq. If Syria does decline similar aid, it may well face the need of curtailing the development program we have outlined.

It might be appropriate to point out also that Syria signed an agreement with UNRWA in October 1952 under which $30 million was to become available for economic development projects that would assist in the rehabilitation of the Arab refugees from Palestine, who in Syria number some 85,000. Less than $2 million of these funds have actually been committed. Because of its insistence that the refugees be repatriated, the government has been reluctant to use the UNRWA development funds. At the same time it might be mentioned that the Director of UNRWA and his Advisory Commission, on which Syria is represented, agreed in a special report to the United Nations General Assembly in November 1954 that UNRWA should pursue its long-term task of "assisting the refugees

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as far as import and export licenses are concerned. The new agreement does not invalidate existing bilateral agreements nor does it prevent the conclusion of such agreements at future dates. The contracting parties undertake further to facilitate for each other the transit of goods, personal effects and of animals by all means of transportation foreseen by their respective customs regulations.

The Lebanese-Syrian trade agreement and the agreement between Syria and Jordan include certain items not included in the inter-Arab agreement and vice versa. There are also certain differences in the definition of industrial or agricultural goods. By and large, however, the Arab agreement is regarded as more favorable to Syrian trade than are the agreements with Lebanon or with Jordan. It may open the door to more exports of agricultural products and may allow an expansion of industrial exports, even though Syria itself may be faced by an increased inflow of some of Lebanon's industrial production. Both Syria and Lebanon, being comparatively more industrialized countries, are likely to benefit from the opening of Iraq's fairly extensive market.

The Inter-Arab Agreement on Payments and Capital Transfer provides for preferential treatment of transfers for mutual payments on current account and for transfer facilities with regard to capital participation in development projects on which the interested parties may agree. The partners more specifically guarantee each other certain minimum payment facilities which come very close to free convertibility of resident accounts for current transactions within their joint territories. They also guarantee each other freedom from fiscal discriminations with regard to all capital transferred under the provisions of the agreement as well as its free repatriation. Regulations for the prevention of capital flight from the Arab countries are left to the authority of the individual countries.

IV CONDITIONS AFFECTING FOREIGN INVESTMENT

General

Certain features of the Syrian economy should be attractive to foreign investment. The country still has undeveloped resources; profits are high; there is a degree of economic stability; free market rates of the Syrian pound have been stabilized for some time and the country has practically

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457 no foreign exchange restrictions; private ownership and initiative predominate; the country has an influential class of businessmen and entrepreneurs which maintains satisfactory relations with foreign business circles. Yet, apart from the banking sector (and even here most, if not all, the new foreign funds seem to have become available on a short-term basis), the inflow of medium- or long-term private investment from abroad has, so far, apparently not been very large, although accurate estimates are lacking. Part of the explanation may be the lack of political stability within the area and the discouraging effects of frequent changes of political organization and leadership in Syria itself. The question arises, however, whether certain recent Syrian legislative and administrative policies may not also have contributed to discourage potential foreign investors.

Legislation

457 471 Complaints are sometimes heard against Decree No. 151 of March 1952, relating to companies and commercial firms established outside Syria. Its principal provisions are that all kinds of companies established outside Syria may be represented in Syria only by Syrian nationals or by commercial companies established in Syria under applicable regulations. These regulations require that not less than two-thirds of the capital of such companies must be in Syrian hands and that a majority of the managers (in the case of cooperatives and partnerships) or the members of the board of directors (in the case of joint stock companies) must be Syrian. The law also imposes some fairly elaborate conditions under which branches of companies established abroad may be registered in Syria. Similar provisions apply also to Syrian agencies of companies established outside Syria.

About the same time, in April 1952, Decree No. 189 prohibited foreign ownership of agricultural land. Article 1 provides that "Non-Syrians, whether natural or legal persons, shall be prohibited from establishing, altering or transferring any right concerning real estate or concluding any agreement for rental and exploitation of agricultural land in Syria for a period in excess of three years." Exempted from these provisions are transfers of inherited rights to real estate, provided reciprocity is accorded in the country of the beneficiary, and transfers of real estate located within the limits of larger towns (provincial capitals). The law's preamble declares its purpose to be the retention of Syrian land in Syrian ownership, permitting Syrians alone to exploit it and to benefit from its resources. But

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while the intention of the law is thus apparently to prevent farm land from falling into the hands of foreigners, its terms would also exclude foreign acquisition of, for example, factory sites outside the limits of major towns, and land for oil prospecting and for construction of gasoline and service stations. At the time of this writing the Syrian Council of Ministers was considering a draft bill under which non-Syrians would be permitted through ordinary decree to own property outside city limits.

Government Policies

There is reason to believe that Decree No. 151 has not been inflexibly applied and that practically all requests for exemptions permitted by the law have been granted. Some harm by way of discouragement to foreign investment may have been done, nevertheless, because the harshness of the terms of the law are understandably but unfortunately better known and more widely publicized abroad than the leniency of its application in individual cases.

The nationalization of power and transport companies in January 1951 affected primarily the foreign owned companies in Aleppo and Damascus. In view of the fact that nationalization of public utilities is not limited to Syria, nationalization itself is unobjectionable. Statements issued by the Syrian Government at the time of the nationalization envisaged a just compensation. However, four years elapsed before the first agreement on compensation was reached with one of the two companies and a settlement with the other is still pending. Regardless of the causes of the delay and without in any way passing judgment as to which side may have been at fault, it should be observed that the fact of the long delay in reaching a final settlement has not passed unnoticed in financial circles outside of Syria and may well have had an adverse effect on prospects for foreign investment in the country.

Appraisal

A certain excess of zeal in trying to preclude a sharing of national resources with foreign entrepreneurs is not a unique phenomenon. It is not surprising that the postwar wave of economic nationalism did not by-pass Syria. There were, moreover, certain experiences in Syria's comparatively recent history which explain this reaction. But although the reasons for the adoption of such policies may be clear, their wisdom is open to dis-

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457 471 pute. Syria no longer need prove its determination to stave off unwanted external interference or infiltration. But it does stand to gain by demonstrating that the resourcefulness of its business community is matched by the government's mature understanding of the country's enlightened self-interest.

It is worth emphasizing that policies which discourage foreign investment are inconsistent with Syria's own record in other fields, such as that of foreign exchange. The free transfer out of Syria of capital and profits in itself creates a basic condition for the influx of funds from abroad. That it was obviously intended to have this effect is confirmed by the legislative motivation of Exchange Control Decree No. 637 of April 21, 1952, which explains that the new regulations aim at making it possible for nonresidents to open accounts with authorized Syrian banks in both foreign and local currency, without any restrictions or conditions. They are thus designed to foster, by means of free inflow and outflow of foreign capital, both short- and long-term foreign investment in Syria.

Finally, it can be pointed out that several underdeveloped countries whose position is not basically different from Syria's have been tending to remove all obstacles in the way of the inflow of capital and outside enterprise. This is true of Pakistan, India, Turkey, and Lebanon; particular reference should be made to recent changes in Egypt's legal and administrative treatment of foreign investors.

Syria's ratification of the Inter-Arab Payments and Capital Transfers Agreement was undoubtedly motivated by a very justified desire to facilitate the movement into Syria of investment funds from some of the oil-rich neighboring countries with limited domestic investment possibilities. Yet this capital is not likely to be attracted as long as legislation or practices discriminating against foreigners in Syrian business remain in force.

v FOREIGN DEBT

457 652 Syria's only external debt is an interest-free loan of U. S. $6 million made by Saudi Arabia in 1950, repayable in four equal annual installments beginning in 1955. The loan agreement was combined with a commercial agreement and provides for repayment in the form of Syrian exports.

Syria's debt to Lebanon, arising from the withdrawal by Lebanon in 1948 of £S 44.6 million circulating in Lebanese territory, has been settled

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by the aforementioned 1952 agreement, under which the Syrian Government ceded to Lebanon about 4 billion French francs which constituted part of the Syrian note cover and were held at the French Treasury. In other words, the Lebanese Government took the place of the Syrian Government in receiving French franc installments due from France to Syria according to 1949 financial agreements between the latter countries.

In 1952 and 1953 Syria repurchased certain amounts of its own currency[6] from the International Monetary Fund in gold and U. S. dollars, thereby adjusting its quota subscription to the IMF.

Obligations for external payments, hitherto unspecified, may arise from compensation to be paid to the former owners of the nationalized power companies.

VI THE FOREIGN EXCHANGE POSITION

History of Exchange Controls

Foreign exchange controls were introduced in Syria in the first months of World War II. After a number of changes, they were gradually relaxed and in April 1952 were completely recodified. A brief review of the main stages of this development follows.

The first stage lasted until August 1948. Although in April 1944 administration of the controls passed from the French mandatory authorities to Lebanese and Syrian offices,[7] the system itself remained largely unchanged. Under it, all foreign exchange transactions were subject to license. Export proceeds as well as foreign exchange receipts from invisibles had to be surrendered at official rates to the Exchange Office, which supplied a certain amount of exchange for licensed imports and other payments. Exports of both foreign exchange and domestic currency required authorization. Regulations for the French franc area continued to be applied even after independent Syrian authorities took over the operation of the system in February 1948.

During the second stage, from August 1948 until September 1949, controls were considerably relaxed and a free foreign exchange market was

[6] £S 916,000 in 1952 and £S 2.271 million in 1953, at official exchange rates.

[7] Which operated jointly until the dissolution in February 1948 of the de facto monetary union between the two states and separately thereafter.

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457 officially recognized. Exporters were obliged to cede only part of their receipts; imports continued to be licensed but were paid for mainly by foreign exchange obtained in the free market. Allocations of foreign exchange at the official rate were largely limited to imports by government agencies and to imports of petroleum products. Transfers of exchange not quoted by the Exchange Office or obtained in the free market could be freely effected. The Exchange Office continued its responsibility for exchange from all transfers of capital from abroad, but of receipts from specified invisibles at first 20% and later only 10% had to be surrendered to the Exchange Office at official rates. Some companies operating under special contract (oil companies, in practice) were obliged, however, to sell to the Exchange Office, at the official rates, 80% of specified currencies.

Beginning in September 1949 export proceeds were freed from restrictions and a newly created Foreign Exchange Fund began to purchase exchange in the free market to supplement the amounts of exchange acquired by the government at official rates.

With the end of the Customs Union with Lebanon in March 1950 an autonomous monetary policy was inaugurated. Experiments were undertaken with a new foreign exchange regime, adapted to the needs of the Syrian national economy. The foreign exchange market was split up into a completely free market and a market for "exportation exchange." The latter was supplied by exchange from the proceeds of certain exports to certain countries to be sold only to importers. Exchange earnings of Syria's most important exports were, in effect, earmarked for this market. Because of the somewhat limited disposability of the "exportation exchange," rates for this exchange were slightly lower than those for completely free exchange. For the first time foreign exchange restrictions were applied between Syria and Lebanon.

Based on the experiences of previous years, the exchange control legislation was recodified in April 1952 and the recodification, with a few subsequent amendments, is still in effect.

The Present System of Exchange Controls and Its Operation

Administration. The final authority on all matters pertaining to exchange policy and controls is the reorganized Exchange Office, which since 1952 has performed the functions of the former separate Government Commissariat, the Control Office and the Exchange Fund. The office is headed

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by a board consisting of a president, designated by the Minister of Finance, and one delegate each from the Ministries of Finance and of National Economy. It has considerable administrative and financial autonomy, making decisions with respect to all transactions; prior to April 1952 not only actual operations but also some of the policy decisions were the responsibility of the BSL. In the absence of a true central bank the Exchange Office also operates in the monetary field to a certain extent; it handles transfers resulting from the country's payments agreements, buys and sells assets for and from the note cover of the Syrian pound and tries to stabilize domestic currency.

The responsibility for recording the exchange proceeds of most exports lies with the authorized commercial banks.

Import licenses are issued by the Ministry of National Economy.

Exchange Rates. Syria has, at present, two foreign exchange rates: an official rate and a fluctuating free market rate (the official rate is £S 2.19 for buying and £S 2.21 for selling, per U. S. dollar).[8] Governmental transactions were shifted in July 1953 to the free market rate, so that almost the only foreign exchange transactions to which the official rate now applies are importations of petroleum products and purchases of local currency by an oil company.

With regard to the free market rates, the intervention of the reorganized Exchange Office brought about two important developments: the separate rate for "exportation exchange" has been eliminated and since February 1953 a single rate is applied to all exchanges not transacted at the official rate; the free market rate of the dollar has been de facto stabilized since August 1953 and the fluctuations of other principal exchange rates quoted in Syria have been reduced. Table 18 shows the average free market rates of the dollar since September 1949.

In Syria the exchange rate of the dollar, like the exchange rates of the other major currencies (sterling, French franc, Belgian franc, Swiss franc and Lebanese pound), is influenced seasonally by the greater concentration of exports in the second half of the calendar year. During this period, specifically between August and December, when advances from foreign importers begin to flow in, rates tend to be low. Syrian imports, on the other hand, are spread more evenly throughout the year; hence exchange rates tend to be higher during those months in which demand is not matched by an abundance of exchange from current export proceeds.

[8] Par value announced by the IMF on July 29, 1947 is £S 2.19148 per U. S. dollar.

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TABLE 18 Average Exchange Rates of U. S. Dollar, 1949–54

(*Piasters per $*)

	1949	1950	1951	1952	1953	1954
January	—	352	364	385	369	357.5
February	—	352	351	387	372	357.5
March	—	357	351	389	371	357.5
April	—	361	350	388	367	357.5
May	—	365	359	375	363	357.5
June	—	368	355	367	359	——
July	—	396	354	359	356.5	——
August	—	400	360	357	357.5	——
September	332	373	359	355	357.5	——
October	347	357	367	360	357.5	——
November	339	365	380	363	357.5	——
December	350	370	383	369	357.5	——

SOURCES: Rapport Officiel de l'Office des Changes (Avril 1953); Bureau des Documentations Syriennes et Arabes.

Apart from these internal trends, the Syrian free foreign exchange market of course also reflects international factors to a greater or lesser degree. Between July and October 1950, for instance, the increased demand for foreign exchange following the outbreak of the Korean war more than offset the normal seasonal fluctuations.

The intervention of the Syrian Exchange Office limited maximum annual fluctuations between August 1952 and July 1953 to 17 piasters per dollar (less than 5% of the average annual rate) as against 30 piasters (about 8%) during the preceding 12 months. Since August 1953 the rate has remained stable at 357.5.

Since the Exchange Office has stabilized the dollar rate in the light of the demand and supply situation, its buying and selling rates for other currencies have generally followed the free market rates, reflecting the relative strength of these currencies vis-à-vis the dollar. Official cross-rates are therefore not maintained, as illustrated in Table 19.

Regulations affecting foreign exchange. Although with a few exceptions all imports are still subject to prior license, foreign exchange for settlement of their payments is readily made available by approved banks at free market rates. Import licenses need the formal endorsement of the Exchange Office.

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TABLE 19 Average Exchange Rates of Selected Currencies

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Year	£[a]	Fr.Fr.[b]	Sw.Fr.[a]	B.Fr.[a]	£E[a]	£I.[a]
1949						
October	910	901	82.80	6.50	881	109
1950						
January	838	882	82.70	6.83	891	109
April	923	894	84.57	6.82	928	112
July	1,093	1,098	90.81	7.78	982	108
October	936	941	83.08	6.78	977	101
1951						
January	941	959	86.46	6.80	953	106
April	910	946	81.88	6.69	938	105
July	883	933	81.78	6.93	905	102
October	882	860	84.20	6.96	909	101
1952						
January	919	914	88.50	7.50	910	101
April	980	932	89.60	7.72	960	103
July	923	936	84.00	7.05	833	101
October	955	924	85.50	6.90	885	101
1953						
January	1,000	946	86.10	7.18	—	103
April	998	975	85.30	7.14	—	104
July	970	967	83.25	6.85	—	106
October	973	952	83.40	6.92	—	109
1954						
January	—	—	—	—	—	—
April	997	980	83.28	7.08	—	111
July	—	—	—	—	—	—

[a] In piasters per unit of quoted currency.
[b] In piasters per 1,000 units of quoted currency.

SOURCES: Rapport Officiel de l'Office des Changes (Avril 1953); Bureau des Documentations Syriennes et Arabes.

Foreign exchange from exports must in principle be repatriated and sold to an approved bank. This is true of Syria's most important export goods, representing about 80% of the value of total exports. Proceeds must be obtained in currencies prescribed by the Exchange Office; in practice the currency of the country to which the goods are exported is usually requested or a stronger currency, at the exporter's choice. Proceeds from exports to Bahrein, Iraq, Jordan, Kuwait and Saudi Arabia—all countries with which Syria habitually has a favorable trade balance, and to which some of Syria's "unrecorded" exports are directed—are not subject to this regulation.

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457 *Invisibles and capital movements.* No regulations apply at present to the proceeds from invisibles and such exchange may be held, sold in the free market, or otherwise disposed of. Exchange for invisible payments may be readily obtained at free market rates. Imports and exports of capital are free of all restrictions and may be dealt with in the free market without limitations.

Appraisal of the System

The continuation of strict foreign exchange regulations until 1948, three years after the termination of hostilities in the area, probably reflects the desire of the authorities to assist in a smooth transition from a wartime to a peacetime economy. But actually in both Syria and Lebanon the gradual relaxation of controls seemed to have represented in many cases nothing more than a formal adaptation of the law to existing practices.

Syria developed its exchange regulations and policies on the basis of a realistic analysis of the conditions in which its foreign exchange market operates: the strong link with the neighboring Beirut market; the absence of a developed monetary and banking organization; the absence of adequate statistical information; the inadequacy of foreign exchange reserves.

Beirut is an important center of diverse banking and foreign exchange transactions and served both Lebanon and Syria until the separation of the two economies. It is generally more active than the markets of Aleppo and Damascus, draws its supplies from a greater variety of sources and is more speculative. The requirement that export proceeds be repatriated, reintroduced in Syria shortly after the end of the Customs Union, arose mainly from the desire to strengthen the domestic exchange market by breaking the habit of merchants of carrying out most of their financial operations in the neighboring countries. Although this purpose has apparently been achieved, the possibility of recourse to Beirut has been by no means eliminated and always looms in the background. This somewhat limits the freedom of Syrian policy makers and would undoubtedly act as a deterrent if a stricter currency regime were attempted in Syria. It is also fairly obvious that any attempts to eliminate the existing broken cross-rates in Syria would be of no avail, as long as such cross-rates are maintained in other countries and, in particular, in Lebanon.

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The new monetary and central banking legislation, which more or less paralleled the 1952 reorganization of the Syrian exchange controls and of the Exchange Office, was not fully implemented until 1954. Hence the necessity for the Exchange Office to substitute, in certain respects, for a Central Bank or for a Stabilization Fund. There is also apparently no prospect that private banks in Syria could now absorb seasonal surpluses of foreign exchange without substantial fluctuations of exchange rates. The Exchange Office which now acts, either directly or via banks, as the principal buyer and seller of foreign exchange has thus stepped into the role previously performed by financiers from abroad. Recently introduced forward buying of foreign exchange from exporters aims at a further limitation of the country's dependence on foreign importers and banks.

The Exchange Office started with very little experience and almost without any of the current information which normally provides the basis for policy decisions of institutions of this kind. The first somewhat timid interventions in the market are explained by their experimental nature. These difficulties have now been in part overcome, thanks to the successfully developed new system of banking statistics.

Finally, at the time of the reorganization of its exchange control system, Syria had only very limited reserves. The total official holdings of gold and of convertible foreign exchange amounted, as of June 30, 1952, to the equivalent of £S 40.3 million; at the official rate this corresponded to 16% of the currency in circulation and represented the value of approximately five weeks of average imports. The Exchange Office could therefore not be endowed with funds which would constitute a "masse de manoeuvre" sufficient to intervene forcefully and decisively in the market.

In view of all these difficulties, the record of the new Exchange Office and of its policies brings much credit to the combined efforts of Syrian talent and first-rate foreign advice responsible for its operations. The development of the domestic foreign exchange market brought the foreign exchange position and the domestic currency circulation into closer relation with the foreign trade of the country than it was before. The de facto stabilization of the U. S. dollar exchange rate is of immediate importance for the country's economic development, since it is a prerequisite for encouragement of domestic savings as well as for foreign credits and investment. The increase in Syria's foreign exchange reserves is also of special significance.

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Foreign Exchange Reserves

The Exchange Office has actively intervened in the free exchange market since July 1952. Up to January 1953 it operated at the prevailing free rates apparently without retarding the Syrian pound's trend toward appreciation; since then, the Exchange Office has actually set the rate by announcing daily quotations at which it would be prepared to buy and sell foreign exchange.

While the operations of the Exchange Office in 1952 resulted in an insignificant net sale of foreign exchange (the sales amounting to £S 128 million as compared to purchases to the value of £S 127 million), the Office was in 1953 a net buyer of foreign exchange, as is shown in Table 20.

TABLE 20 Transactions of the Exchange Office in Principal Currencies, 1953

(Million currency units)

Currency	Purchases	Sales	Net purchases or net sales (−)
U.S. dollars	42.1	26.0	16.1
Pounds sterling	4.6	7.3	−2.7
French francs	6,625.9	4,931.7	1,694.2
Belgian francs	2,228.0	1,790.3	437.7
Lebanese pounds	35.8	17.5	18.3
Swiss francs	0.9	1.3	−0.4

SOURCE: Le Commerce du Levant, Beirut, Lebanon, June 28, 1954.

Table 21 indicates the changes in the official holdings of gold and foreign exchange of Syria during the last three years. A comparison of the totals (at the free foreign exchange rate) at the end of 1952 and the end of 1953 shows an increase of £S 49.3 million while an increase of £S 52 million is shown in the balance of payments estimate (see below). This discrepancy is due to the fact that the first figure is calculated on the basis of the foreign exchange rates prevailing at the end of each year while the second figure is derived from the net transactions of the Exchange Office effected through 1953 at current rates.

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TABLE 21 Official Holdings of Gold and Foreign Assets, 1951–53 457

(Million £S)

End of year	Gold	U.S. $	Inconvertible currencies	Total: At official rate	Total: At free rate	% of total in gold & U.S. $
1951	24.7	4.0	44.7	73.4	114.1	39.1
1952	31.7	17.5	15.3	64.5	107.4	76.3
1953	31.7	45.5	20.7	97.9	156.7	78.8

SOURCE: Council on Money and Credit.

VII BALANCE OF PAYMENTS

No balance of payments estimates could be made before 1950, until which time, as already mentioned, not even national trade statistics were available. Since then estimates have been made regularly with an increasing degree of accuracy. Margins of error must be allowed for; they may be particularly large with regard to the adjustments of exports and imports for undervaluation and for smuggling, and on invisible items such as profits from transit trade, tourism, emigrant remittances and private capital movements outside banks.

Yet, the fact that the IMF has found it possible to include estimates of the Syrian balance of payments in its Balance of Payments Yearbook is one more indication that these estimates can be regarded with a certain confidence.

Trade Balance

Table 22 shows merchandise transactions of Syria during the last three years, indicating what adjustments have been made.

The reason for the undervaluation of the declared value of exports is to enable foreign importers to pay lower import duties in their countries, wherever ad valorem duties obtain. Undervaluation of imports arises obviously from the desire to pay lower customs duties under Syria's ad

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TABLE 22 Merchandise Transactions, 1951–53

(Million £S)

	1951	1952	1953
Exports, f.o.b. in customs returns	277	320	376
Adjustment for undervaluation	15	17	19
Unrecorded exports (net)	—	—	13
Total adjusted exports	292	337	408
Imports, c.i.f. in customs returns	291	383	387
Additions for:			
Exchange rate adjustment	120	131	164
Undervaluation	5	6	12
UNRWA imports	—	—	1
Unrecorded imports (net)	2	4	—
Total adjusted imports	418	444	484
Trade deficit	−126	−117	−76

SOURCE: IMF Balance of Payments Yearbook; Syrian Government.

valorem tariffs. In both cases adjustments are based on estimates by Syrian officials.

The same source provided the estimates for unrecorded trade, which are, of course, no more than rough guesses. It is apparently believed that in 1951 and 1952 more was smuggled into the country than out of it. For 1953 it was assumed that unrecorded trade roughly balanced in both directions except for gold. As Syrian customs figures record gold imports but do not reveal gold exports in 1953, when such exports were forbidden, and as all the gold imported during that year for non-monetary purposes (£S 13 million) is believed to have been re-exported, a corresponding amount has been included as unrecorded exports in the 1953 balance of payments estimate.

Recorded imports do not include armaments, on which information is not available. Nor do they include supplies for refugees donated by the United Nations Relief and Works Agency (UNRWA); in 1953 the value of the latter was recorded separately.

Since customs figures for imports are based on the official exchange rate, adjustments were made by applying the average annual exchange rates to imports from the various currency areas.

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TABLE 23 Syria's Balance of Payments, 1951–53

(Million £S)[a] 457

	1951		1952		1953	
	Credit	Debit	Credit	Debit	Credit	Debit
A. *Goods and services*						
Merchandise (exports f.o.b.; imports c.i.f.)	292	418	337	444	408	484
Transit trade	5	—	5	—	6	—
Foreign travel	13	13	13	13	15	24
Oil companies	54	—	50	—	49	—
Miscellaneous receipts and expenditures	7	2	10	4	10	4
Total (A)	371	433	415	461	488	512
B. *Private donations and capital movements*						
Emigrant remittances	10	—	10	—	10	—
Private transfers (excluding banks)	15	—	24	—	20	—
Total (B)	25	—	34	—	30	—
C. *Miscellaneous official financing*						
UNRWA	11	—	11	—	10	—
Settlement of Government debt	—	—	—	37[b]	—	—
Total (C)	11	—	11	37	10	—
D. *Errors and omissions*	6	—	26	—	—	6
Total (A–D)	413	433	486	498	528	518
E. *Compensatory financing*						
Banks (net)	14	—	5	—	46	—
Government	15[c]	—	—	2[d]	—	4[d]
Monetary Reserves	—	9	9	—	—	52
Total (E)	29	9	14	2	46	56
Total (A–E)	442	442	500	500	574	574

[a] At free market rate.

[b] Settlement of debt with Lebanon. The total amount due to Lebanon over the period 1952 to 1954 inclusive was set aside in 1952 in a blocked account with the BSL and subtracted from the monetary reserves.

[c] Drawings on the Saudi Arabian loan.

[d] Repurchases with IMF.

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457 *Balance of Payments Estimates*

Table 23 attempts an analytical presentation of Syria's balance of payments during the last three years. It is based on studies of the Syrian Ministry of Finance.

The following is a more detailed analysis of the calculations underlying the estimates for foreign travel in 1953.

(*Million £S*)

Credit		Debit	
Foreign legations	8	Syrian students abroad	6
Foreign tourists	2	Syrian legations (net)	2
Lebanese visitors	5	Syrian tourists	1
	—	Syrian visitors to Lebanon	15
Total	15	Total	24

Restrictions on Syrian travel to Lebanon were greatly relaxed in 1953[9] which accounts for the large increase in expenditure for this item.

Receipts from oil companies shown in Table 23 include payments to the government under terms of concessions and rates of foreign exchange by the companies to cover local expenditures. The latter decreased with the completion of the new installation for transport of oil (TAP line and IPC pipelines and the oil port of Banias).

Miscellaneous receipts and expenditures include income from investment abroad and transfer of profits from foreign investment in Syria as well as various other non-recurrent receipts and expenditure.

As no data exist with respect to fluctuations of receipts from emigrant remittances, the original estimate is repeated.

What should be shown under UNRWA donations is the total of foreign currency imported into Syria by UNRWA during the calendar year, plus the value of goods imported into Syria and financed by UNRWA from outside funds. From this total should be deducted the value of supplies purchased in Syria with the aforementioned funds, re-exported by UNRWA to neighboring countries and therefore already counted under recorded export proceeds. A detailed investigation of these figures carried out for 1953 gave a result very close to the estimates for previous years.

No data are available on capital movements in the private sector outside banks. This position, being residual, can be considered jointly with

[9] And abolished in the spring of 1954.

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errors and omissions. Capital movements through banks are recorded with increasing accuracy thanks to the recently introduced new system of banking statistics. The remarkable increase of obligations in the banking sector in 1953 is explained by transactions connected with the financing of the crops which are now apparently carried out by Syrian banks, including Syrian branches of foreign banks, to a greater extent than in previous years.

Compensatory government financing includes drawings on the Saudi Arabian loan in 1951 and the settlement of a repurchase obligation with regard to the IMF in 1952 and 1953.

In 1951, monetary reserves increased despite a balance of accounts deficit. This was because drawings on the Saudi Arabian loan and a decrease in net foreign deposits with banks more than offset the balance of accounts deficit. In 1952 the balance of accounts deficit and a repurchase of Syrian pounds from the IMF were reflected in a decline in monetary reserves except for a minor increase in net external liabilities of banks. In 1953 the balance of accounts showed a surplus; the monetary reserves increased considerably, despite a further repurchase of Syrian pounds, thanks to a substantial increase in net foreign advances to banks. This importation of banking funds in 1953 was apparently occasioned by the credit needs of the expanding economy and represented, in part at least, a form of prepayment of the larger volume of exports which developed during the following year.

Future Trends

In Syria, not unlike other underdeveloped countries, an adverse balance of trade and a surplus of invisibles on current accounts have been recurrent features during the short period under observation.

If 1950 is disregarded (in view of the abnormal configuration of prices following the outbreak of the Korean war and that year's statistical shortcomings) the Syrian balance of trade shows a steady tendency to improve. This improvement is mainly due to increased exports; there is reason to expect that their growth will continue.

During the last three years, an average of 70-80% of the value of Syria's exports was represented by agricultural and livestock products. Unless present prices of these goods show further substantial decreases, a growth in the volume of exportable quantities should have a more or less direct impact on the value of exports.

14:International Bank S-5 (1954) 1955 MD1 Syria MD1

457 On the assumption that the development program recommended by the mission will be adopted, the rising trend in agricultural production may well continue, particularly because of increasing yields. The livestock population has been growing steadily since 1949. The carrying out of the mission's recommendations in this field may lead to an even greater increase in the value of livestock production.

The mission feels justified in anticipating that by 1960 Syria will have sufficient agricultural surpluses not only to close a trade gap of the magnitude estimated for 1953 but even to provide a small favorable balance. Such a balance might be somewhat increased by the growth of the industrial exports, perhaps stimulated by the opening of new markets within the Arab preferential trade area.

On the other hand, imports cannot be expected to remain at their present level at a time when both the population and average incomes are expected to grow. Import restrictions may be relaxed; equipment for development projects will have to be purchased from abroad. To attempt to weigh these possible import increases against the above-mentioned surpluses would be entering into the realm of pure speculation. It can be said, however, that barring any unexpected major unfavorable price movements, and given continued growth of the Syrian economy, exports may, generally speaking, tend to equilibrate with imports.

If Syria's considerable tourist assets can attract increasing numbers of foreign visitors, this would tend to offset expenditures resulting from the desire of Syrians to visit Lebanon. While UNRWA expenditures cannot be expected to continue indefinitely, emigrant remittances will presumably continue and revenues from oil companies will almost certainly increase. There is no reason to believe that invisible transactions on current accounts will cease to show net credit balances.

Thus, the general prospects of Syria's balance of payments on current account seem to be good and modest surpluses would appear to be more likely than deficits.

There is no basis on which to predict capital movements. Given political stability, an influx of funds from abroad could well take place; if so, this would of course accelerate the rhythm of Syria's economic growth.

3:Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East
SYRIA MD1

investment in cotton growing, prices began to rise once more. 435
At the end of 1951 rising import prices, coupled with the poor 439
grain crop, were reflected in local retail prices, and prices continued to rise until mid-1952, when governmental action and steadier import prices had a salutary effect. Thus, generally speaking, the retail price of household goods has risen five or six times since before the war, and the currency in circulation has also risen despite the fact that the official credit policy has been restrictive; although the note issue is now only £S46 million higher than in 1946 (at 31 December 1951 it was £S248 million), bank deposits have increased from £S96·2 million at the end of 1949 to £S198·3 million at the end of 1951. At that date the currency was covered, as to gold 9·9 per cent, foreign exchange 6 per cent, commercial bonds 1·4 per cent, treasury bills 33·5 per cent, and state loans or guarantees 48·9 per cent.

Direct taxation on income and the land accounts for only 651
about a quarter of the Syrian budget;[1] this is less than before 652
the war, for the proportionate amount from the land has fallen from 30 per cent to about 14 per cent in 1950; the estimate for 1952 was 18 per cent. Receipts from customs duties have increased considerably and these, with other indirect taxes, have helped to make the burden less 'fairly' distributed. Indirect taxes are levied on sugar, petroleum, and other essential commodities. Budgetary expenditure since before the war has increased seventeenfold, and since 1949 the total annual expenditure has increased by more than a quarter; but whereas expenditure on health, education, and public works has increased only slightly, that on defence has trebled and accounts for over a third of total expenditure. Agriculture, with only 2 per cent of the budget, is insufficiently provided for and it is hoped that its share will be increased.

Banking is largely but not exclusively in the hands of foreign 453
banks; La Banque de Syrie et du Liban (French) has the concession for the note issue, but there is talk of starting a Syrian National Bank; among other commercial banks are La Banque Nationale pour le Commerce et l'Industrie (French) and the British Bank of the Middle East. The foreign-exchange market 457
has always been less influential than that of Beirut, but in this respect Aleppo is growing in importance. There is a recognized free market for exchange[2] in which merchants and Government alike deal. The official rate of £S6·19 = £1, used mainly for Government transactions, was abolished in June 1953 for all purposes except Government transactions with petroleum com-

[1] See table 2, p. 502 below. [2] See table 3, p. 503 below.

3:Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East
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panies. It was replaced by a fixed rate to approximate closely to the prevailing free rate.

International Trade

In 1951 Syria had an adverse balance of trade of £S28 million but this was probably counterbalanced by the income from certain invisible exports which do not come within the knowledge of the official statisticians. The year 1951, however, was a particularly bad one for agriculture. In normal years Syria can expect to have a favourable balance of international trade; in 1950, for example, the country had a considerable trade surplus and by 1952 the large deficit of the previous year had been wiped out. Syria's best customers are usually Lebanon and Iraq (Lebanon's inter-Middle Eastern trade is higher still) but there is also reciprocal trade with Britain, France, Italy, and the United States. Trade with Western Germany has recovered and is now quite important although it is threatened by Syria's attitude to the German reparations to Israel.[1] Syria's main exports are agricultural; raw cotton has recently become the most important. Her chief imports are machinery, oil, and textiles.[2]

Up to 1947 almost all the external trade of Syria was done not only through Beirut but also by Lebanese firms; however, since then, Syrian merchants have set out to show that they can deal directly with the outside world. The Government are encouraging importers and exporters to use Latakia rather than Beirut and legislation aims at preventing foreign businesses from being represented in Syria by foreigners. This has the effect of cutting out the middleman in Beirut, but it also makes it very difficult for British, American, and French firms to have sufficient control over their affairs to encourage the investment in Syria of foreign skill and foreign capital. In 1951 some Belgian and French companies were nationalized and the commercial climate was unfavourable to foreign investment; but during 1952 Colonel Shishakli declared that the Government would welcome foreign capital and enterprise provided that they did not encroach on Syria's national sovereignty and interests, and towards this end exchange regulations were to be simplified and greater freedom was to be given in the transfer of capital.

Development Schemes

Interest rates in Syria and Lebanon are very high and even a sound borrower may have to pay from 25 to 50 per cent

[1] See table 4, p. 503 below. [2] See ibid.

3:Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East
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figure until February 1953. The cost of living has likewise risen considerably; during the war it rose about sixfold, reaching a peak in 1945. It then decreased steadily until the autumn of 1950, when the Korean boom in raw material prices brought fresh inflationary pressures into Lebanon through her growing commercial and entrepôt trade, and persisted until early 1952. This fresh rise in prices was also caused by the rise in food prices (imported and home grown) following the bad harvest of 1951. Although early in 1953 prices had not resumed their pre-Korean level, they had declined steadily.

The following figures showing the indices of wholesale prices and the cost of living illustrate the salient movement in prices (1948 = 100).

	1939	*1945*	*1950 July*	*1951 March*	*1951 Dec.*	*1952 May*	*1952 Dec.*	*1953 May*
Wholesale prices	13	134	76	104	96	86	82	79
Cost of living	20	123	84	95	96	94	91	89

(SOURCE: IMF, *International Financial Statistics*, September 1953.)

Budgetary expenditure and receipts have also increased considerably, partly resulting from the rise in prices but also from greater commitments. The main increase in expenditure has been for defence, for the Palestine conflict and its aftermath, and for education. The sources of revenue have undergone a marked change: whereas customs provided 60 per cent of the revenue in 1939, they now contribute only 25 per cent, and new indirect taxes on general consumption now provide the major share, about 50 per cent. A measure to increase direct taxation was introduced in September 1951 in the form of a tax on agricultural income based on a 'presumptive' assessment value at progressive rates of tax. As yet its full effect is not known. The budget estimates for 1952 were: expenditure £L94·25 million, and receipts £L94·16 million; further details are given in table 2 on p. 502 below. The 1953 budget was expected to be of the order of £L110 million.

The division between the Syrian and the Lebanese currencies became effective at the end of January 1948 and this introduced an agio between the two currencies. At first this favoured Lebanon, but in 1951 the Syrian pound was the higher and then, in 1952, the Lebanese pound returned to a premium of from 2·6 per cent to 0·7 per cent. The exchange rates of foreign currencies are given in table 3 on p. 503 below.

International Trade

In defiance of the gloomy prophecies of economists, Lebanon contrives to flourish with an adverse trade balance, which in

29:Dunn S-4 (1952)1952 MI Middle East
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COTTON IN SYRIA

COTTON TEXTILES

Syria has nine small cotton textile mills centered around Aleppo and Damascus, with a total of 55,000 spindles and 2,000 looms and a number of knitting mills and garment factories. A large home industry, which not only weaves but also spins cotton yarn, has, according to trade representatives, a capacity almost as great as that of the commercial mills.

Until a few years ago the industry of Syria was complementary to that of Lebanon. Syria bought yarns from Lebanon and sold cloth there. The two countries together were able to produce about two-thirds of their total needs.[30] Acceding to nationalistic pressure, Syria dissolved the customs union in 1950 and set about not only to install more spindles to balance the weaving capacity, but actually to become self-sufficient in all cotton textiles. A number of mills have bought new equipment for rehabilitation and integration.

Outstanding in this field is the new mill built at Damascus by a group of industrialists known as the "big five." The mill is small in size—only 10,000 spindles and 350 fully automatic looms—but it is a showplace, modern in every detail. The management is especially proud of the modern clinic which provides the workers with free medical attention—a new idea in this part of the world.

This mill has a well-trained engineering and administrative staff and good machinery. To increase efficiency, the management hopes to abandon the range of goods now made and concentrate on the production of only two or three constructions. The level of efficiency is high enough, based on the wage scale of roughly $1.25 per day, to permit the mill to compete on the world market. Approximately 20 per cent of the cloth production is exported.

The other industries are less efficient and are not in a position to compete on the export market.

COTTON CONSUMPTION

In Syria production of yarns was estimated by the government at 5,500 tons in 1951, double what it had been four years earlier and seven times the output ten years ago. Industry and government figures vary considerably, especially on output of the home industry, but they agree on the same sharp rise in production.

Cotton consumption, computed on the basis of yarn production estimates, is placed at approximately 33,000 bales and is in line with the sharp increase in yarn production.

PROTECTION

As in other Middle East countries, the cotton textile industry receives substantial tariff protection from imports. Syria is a free-money market, and foreign exchange can be bought for any purpose on any street corner. As a result, prices are reported to be going down, as they did in Lebanon when foreign exchange was freed several years ago.

Duties on cotton textiles were changed in 1949 from a specific rate base to an ad valorem base. The duties on most yarns in which the local industry is deficient average about 20 per cent ad valorem; on cotton textiles, about

[30] *Report of the United States-Syria Agricultural Mission, op. cit.*, p. 3.

Other measures for the protection and encouragement of industry were taken in September 1952, when new enterprises were exempted from customs duties on machinery and building materials; from property taxes on factory, offices and workers' houses for six years; from income tax on 10 per cent of reinvested profits; and from "tanattu" tax for six years. More direct assistance was provided through loans. In 1949, the Government advanced £S 16.9 million, for a period of three years, to nine industrial companies. In 1952, the loans were extended for another five years, and at the end of 1953 all but £S 220,000 were still outstanding. 1/ Another loan of £S 10 million was advanced to an electricity company.

As a counterpart to the assistance given by it, the Government has increasingly sought to regulate industrial activity. In 1952, the establishment of new factories, or expansion of existing ones, was made conditional on authorization from the Ministry of Economics, which was to be given only if the project were judged both viable and useful to the country's economy. All existing enterprises were also required to register with the Ministry. In 1953, minimum standards were set in the mechanical weaving, underwear, tile, confectionery, tanning, shoe, hosiery and match industries. The Government also intervened in the cotton spinning industry in 1951 and in the vegetable oil and cement industries in 1953 in order to prevent disproportionate rises in prices.

These various measures have been responsible for the survival of some of the newly established industries. Another important factor has been the rise in consumer purchasing power due to the increase in agricultural income. 2/ It is unlikely that Syrian industry will be able to dispense with government assistance in the near future, and its further growth will continue to depend on agricultural development.

Foreign trade and balance of payments

The outstanding event in the field of foreign trade during the post-war period was the dissolution of the customs union between Lebanon and Syria. Termination of the French Mandate had not loosened the economic ties binding Lebanon and Syria. The customs union between them continued in force. Notes issued by the Banque de Syrie et du Liban circulated freely, at par, in both

1/ Etude sur la Syrie économique, 1953.

2/ The poor grain crops and low cotton prices of 1951 had very unfavourable effects on industry.

439 457 countries, and the railways and other monopolies in the two countries operated under the supervision of a joint board. In the post-war period, however, strains began to be felt, especially in regard to the allocation of customs revenues between the two countries. Conclusion of a financial agreement between Lebanon and France in 1948, and failure of Syria to conclude one until the following year, put the Lebanese pound at a premium over the Syrian pound. More important was the incompatibility between the desire of the Syrian Government to protect its agriculture and its developing industries and that of the Lebanese Government to reduce restrictions on trade and movement of capital and to lower the cost of living, and the consequent divergence in the fiscal policies of the two.

The breakup of the customs union, on 14 March 1950, was followed by considerable dislocation of trade. After prolonged negotiation, a temporary commercial agreement was signed in November 1950, removing prohibitions on the importation from either country of agricultural and domestic industrial goods, that is, goods containing local raw materials to the extent of 50 per cent of their value. Such goods were, however, subject to the usual custom duties and, like other goods imported into Syria, required licences. In the following years, several temporary agreements were concluded between the two countries, of which the most important was that of February 1952. This agreement contained lists of the products of each country which were to be admitted to the other free of duty or at reduced rates. Minimum duties were agreed upon for certain goods imported from other countries. The agreement, however, left certain loopholes, as a result of which Syria prohibited the export of certain agricultural goods to Lebanon, and the import of certain manufactured goods from it. Consequently, another agreement was concluded in March 1953, in which some of the loopholes were closed and transit facilities were mutually conceded.

Those agreements achieved one of the main objects of Syrian policy, the protection of industry and of certain branches of agriculture. A further step in the same direction was the refusal, in August 1951, to renew the General Agreement on Tariffs and Trade. This left Syria free to conclude bilateral agreements with certain Arab States, namely Egypt, Jordan and Saudi Arabia, and with other States such as Czechoslovakia, the Federal Republic of Germany, Greece, Japan and Yugoslavia; these agreements provide for most favoured nation treatment and, in certain cases, for tariff concessions. In May 1954, the Inter-Arab Trade and Transit Agreement and the Payments Agreement were ratified by Syria.

439 457 504 Another objective of the Syrian Government has been diversion of trade from the port of Beirut to Latakia and the replacing of Lebanese middlemen by Syrian. In 1950, the Government prohibited the import of certain goods, such as textiles, through Lebanon. In 1952, foreign firms operating in Syria were required to have Syrian managers, and companies established were required to have capital, more than half of which came from Syrian sources. Free zones were set up in Latakia and Damascus, and re-exporting was authorized. In 1952, a decree prohibited the exporting of major agricultural products, such as cotton, cotton-seed, wheat, barley, pulses and wool, except through Latakia; most products grown in the southern part of Syria 1/ were, however, exempted from this provision. Owing to

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1/ The provinces of Hama, Homs, Damascus, Hauran and Jebal Druse.

the inadequate condition of the port of Latakia and the unpreparedness of Syrian merchants, these restrictions caused a certain amount of hardship, the cost of imported merchandise was raised, 1/ and much capital was locked up in merchandise. However, improvement of the harbour (see below) and the expansion in Syria's foreign trade greatly increased the volume of merchandise passing through Latakia; imports rose from 19,000 tons in 1948 to 168,000 in 1953 and 207,000 in 1954, and exports from 6,000 tons to 336,000 and 630,000. In July 1954, exports through other routes were authorized, to relieve pressure on Latakia. The greater proportion of imports, and nearly half of all exports, still pass across the Lebanese frontier.

Table 52 shows the changes that have taken place in Syria's foreign trade. During the war years, the imports of the Lebano-Syrian Union declined greatly, while exports contracted still more sharply. 2/ After the war, imports recovered rapidly but exports lagged behind. The large import surplus, which was mainly accounted for by Lebanon but to which Syria also contributed, was covered by liquidating the greater part of the foreign exchange reserves accumulated during the war and by various invisible receipts. The breakup of the customs union coincided with expansion of cotton production in Syria and with an increase in the output of cereals. Consequently, Syria's foreign trade has, in recent years, shown a surplus. This, however, is due to the fact that imports are valued at the official rate of exchange, although they are actually paid for with currency purchased at the free rate. Table 53 shows the main items in Syria's balance of payments, valued at the respective free rates.

A breakdown of exports in 1953 shows raw cotton to be by far the most important item, 3/ followed by wheat and barley; 4/ imports covered a wide range of products. 5/

1/ In 1951 it was estimated that the cost of importing goods through Latakia was 15 to 20 per cent higher than through Beirut.

2/ A quantum index of imports into Lebanon and Syria (1938 = 100) shows a decline to 27 in 1941, and a recovery to 53 in 1945, 107 in 1946, 122 in 1947, 178 in 1948 and 205 in 1949. The index of exports fell to 18 in 1941 and recovered to 30 in 1945, 70 in 1946, 84 in 1947, 80 in 1948 and 154 in 1949 (Musa J. Halabi, Terms of Trade for Syria and Lebanon, unpublished thesis, American University, Beirut, 1952).

3/ France has been the leading importer of Syrian cotton since large-scale production began, followed by the United Kingdom. In 1953, France took 20,000 tons, out of a total of 54,000, the United Kingdom 14,000, the Federal Republic of Germany 9,000, Italy 6,000 and Lebanon 2,000 (Bureau des documentations syriennes et arabes, Etude Mensuelle sur l'économie et le marché syriens). In 1952, exports totalled 38,000 tons, worth £S 124.3 million.

4/ In 1953, exports of wheat aggregated 180,000 tons, barley 153,000, millet 43,000 and flour 22,000. In 1952, the figures were 100,000 tons, 140,000 tons, 14,000 tons and 9,000 tons respectively.

5/ Ministry of National Economy, Summary of Foreign Trade, Fourth Quarter and Year 1953 (Damascus, 1954).

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Table 52. Syria: Quantity and Value of Imports and Exports, 1938, 1941, 1943 and 1945 to 1954 a/

Year	Imports		Exports and re-exports		Balance of trade (millions of Syrian pounds)
	Quantity (thousands of tons)	Value (millions of Syrian pounds)	Quantity (thousands of tons)	Value (millions of Syrian pounds)	
1938....	561	70.8	382	39.5	-31.3
1941....	274	40.5	29	11.2	-29.4
1943....	428	110.1	53	32.0	-78.1
1945....	515	130.6	146	43.8	-86.8
1946....	370	266.6	107	85.6	-181.0
1947....	414	362.8	150	83.6	-279.2
1948....	757	483.5	125	78.5	-405.0
1949....	957	516.2	308	111.1	-405.1
1950 b/.	239	116.9	112	37.7	-79.2
1950 c/.	458	197.8	435	207.9	10.1
1951....	727	304.0	212	277.1	-26.8
1952....	805	313.3	491	319.6	6.3
1953....	772	307.1	718	375.8	68.7
1954 d/.	424	169.6	345	169.2	-0.4

Source: Ministry of National Economy, Statistical Abstract of Syria; United Nations, Monthly Bulletin of Statistics.

a/ Lebanon and Syria from 1938 to 13 March 1950; Syria only from 13 March 1950 to 1954.

b/ 1 January to 13 March.

c/ 13 March to 31 December.

d/ Six months.

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Table 33. Syria: Principal Items in Balance of Payments, 1951 to 1955

(Millions of Syrian pounds)

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Item	1951	1952	1953 p/
Current accounts:			
Credit:			
Proceeds of exports a/	292	337	408
Receipts from all companies	54	50	49
Expenditure of United Nations Relief and Works Agency	11	11	10
Refugees' remittances	10	10	10
Other services	10	11	3
Total	377	419	480
Debit:			
Payments for imports a/	418	444	485
Balance of current transactions	-41	-25	-4
Recorded capital items: b/			
Private capital movements	15	26	20
Saudi Arabian loan	15	-	-
Debt to Lebanon	-	-37	-
Repurchase obligation i towards the International Monetary Fund	-	-2	-4
Gold and official foreign exchange	-9	9	-32
Bank reserves	14	5	46
Balance of recorded capital items	35	-1	10
Unrecorded items:			
Balance of unrecorded items, errors and omissions	6	26	-6

Source: United Nations Relief and Works Agency for Palestine Refugees in the Near East (Beirut).

p/ Preliminary.
a/ Valued f.o.b., at free rate of exchange.
b/ Valued c.i.f., at free rate of exchange.
c/ Minus sign indicates outflow of capital.

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Main export items:	Millions of Syrian pounds	Main import items:	Millions of Syrian pounds
Raw cotton	135.0	Petroleum products	39.5
Wheat	46.0	Machinery and parts	30.2
Barley	24.3	Gold ingots and bars	20.1
Livestock	23.0	Iron and steel products	18.0
Raw wool	21.5	Motor vehicles	17.8
Silk yarns and fabrics	17.3	Rayon thread	15.1
Other textile products	12.6	Other textile products	27.0

Available information on the terms of trade of Lebanon and Syria shows an improvement during the war years, a rapid deterioration from 1944 to 1949, a sharp improvement up to 1951 and a deterioration to 1953. By 1944, the export price index stood at 493 whereas the import price index had risen to 331 (1938 = 100), giving an export-import price ratio of 149. The export price index showed a further small rise to 498 in 1945, but thereafter fell rapidly to 246 in 1949, whereas import prices continued to rise to a peak of 533 in 1947 and thereafter fell to 466 in 1949. The export-import price ratio therefore declined to 118 in 1945, 92 in 1946, 64 in 1947 and 1948 and 53 in 1949. 1/ No subsequent indices are available, but the following table would seem to indicate a marked improvement in Syria's terms of trade in 1950 and 1951, a deterioration in 1952 and 1953, and a slight improvement in 1954. 2/

	Cotton	Wheat
	(Export price per ton, in Syrian pounds)	
1945	2,000	211
1950 (last three quarters)	3,750	210
1951	4,834	317
1952	3,288	297
1953	2,499	255
1954 (first half)	2,746	264

The following table shows Syria's trade with its principal clients and suppliers in 1954, each item as a percentage of the total:

1/ Musa J. Halabi, op. cit.

2/ Unit values computed from foreign trade returns.

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Exports to:		Imports from:	
Lebanon	24	United States	12
France	16	Lebanon	11
United Kingdom	13	United Kingdom	11
Italy	9	France	11
Federal Republic of Germany	7	Federal Republic of Germany	10
United States	6	Italy	7

As table 53 shows, most of Syria's import surplus has been covered by various invisible items. The most important of these were receipts from the Iraq Petroleum Company and the Trans-Arabian Pipeline in the form of direct payments for security charges, transit fees and other items; negotiations are under way to increase these payments. More significant in recent years have been other expenditures by oil companies building pipelines and other transport facilities in Syria, namely the Kirkuk-Tripoli pipeline and the Trans-Arabian pipeline, both of which were completed in 1949, and the Kirkuk-Baniyas pipeline and oil port, completed in 1952. Since then, local expenditures by oil companies have tended to diminish. Tourist expenditures in Syria in 1953 have been estimated at $6 million. 1/

There has been little change in Syria's capital accounts. In 1948 and 1949, an appreciable outflow to Lebanon seems to have taken place, but this was succeeded by some repatriation of capital and by an inflow of Lebanese private capital and to a smaller extent other foreign private capital, which was invested in the production, processing and marketing of cotton. A small amount of foreign capital was also invested in branches of banks and other foreign firms operating in Syria. On 29 January 1950, the Saudi Arabian Government granted to the Syrian Government a $6 million interest-free loan, to be used mainly for improvement of the port of Latakia; it also transferred to Syria the dredging equipment which had been used in the Saudi port of Jidda. The loan was to be repaid, in four equal instalments, between 1955 and 1958; repayment was to be made in Syrian products, such as grains, textiles and other specified articles. Most of the loan was drawn upon in 1951.

In 1952 and 1953 Syria repurchased from the International Monetary Fund Syrian currency of a value of $1,454,000 and repaid to Lebanon its debt of £S 44.6 million. 2/

1/ Le Commerce du Levant, 20 March 1954 (Beirut).

2/ Bulletin issued by the Money and Credit Board, 5 January 1954, reproduced in La Syrie économique, 1953.

Finance and public finance

453 652 454 The post-war period witnessed some important changes in Syria's monetary and banking system, in its foreign exchange system and in its public finances. The large increase in production, investment and commerce noted above had its counterpart in the development of the banking system 1/ and expansion of the money supply (see table 10), most of which has taken the form of bank deposits.

This expansion of the money supply in the post-war period has not been matched by a rise in prices. Between 1945 and 1949 the trend was downward. The discontinuance of Allied military expenditure, together with a sharp increase in the import of surplus, led to a sizable deficit on current account. 2/ Moreover, the 1945 and 1946 budgets showed a surplus, and although the 1947 and 1948 budgets closed with a deficit the amount involved was small. Investment remained at a low level. The Arab-Israeli war led to a large budget deficit in 1949; this was, however, offset by the very low level of investment and the huge import surplus. The index of retail prices of twenty-two essential commodities in Damascus fell from its peak of 831 in 1945 (1958 = 100) to 478 in 1949. 3/

435 [454 455] 434 During the period 1950 to 1954, on the other hand, prices rose. The large-scale investment in cotton, and the sharp increase in the quantity and value of exports of cotton and cereals, which led to a position approaching equilibrium in the balance of payments (see table 53), raised incomes. Subsidiary factors were pipeline construction, high building activity, 4/ and small budget deficits. The rise in import prices, aggravated by hoarding and speculation in 1950 and 1951, also played a part. The rise in prices remained, however, small in scale. The index of wholesale prices of raw materials in Damascus, in which cotton has a heavy weight, rose from 100 in 1949 to 111 in 1950 and 136 in 1951; the fall in cotton prices led to a drop to 119 in 1952 and 110 in 1953. Improved cotton

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1/ Foreign banks account for the greater part of banking activities in Syria; in recent years several banks have opened branches in Syria and existing banks have set up new offices in the smaller towns. In the first half of 1954 seven new banks, mostly Syrian or Lebanese, were established, bringing the total to seventeen. The country is still, however, inadequately provided with long-term credit for agricultural and industrial development, a gap that has been only partly filled by the Government-owned Agricultural Bank and Government loans to industry (see above).

2/ It is difficult to distinguish between Syria's and Lebanon's shares in the trade of the customs union, but there is no doubt that Syria had a large import surplus. This was not covered by such receipts as revenue from petroleum companies and remittances sent by emigrants.

3/ Ministry of National Economy, Statistical Abstract, 1953. There was no index of wholesale prices in Syria prior to 1949; the wholesale price index in Beirut fell from its peak of 1,038 in 1945 (1939 = 100) to 641 in 1949.

4/ Authorized floor space for new buildings in Damascus increased from 56,000 square metres in 1945 to 166,000 in 1949, 209,000 in 1950, 162,000 in 1951, 210,000 in 1952 and 265,000 in 1953.

435 prices and greatly increased exports of grain in the first half of 1954, however,
434 once more raised incomes and prices and at the end of October the index stood at 129. 1/

Currency

457 Syria remained in the franc area until 1949. Following the outbreak of the Second World War, two important measures affecting both Lebanon and Syria were taken by the Mandatory Authorities. First, an Exchange Control was established, to which all foreign exchange earned by residents of both countries was to be paid; this included the sterling and other payments made by the Allied troops stationed in Lebanon and Syria. Secondly, the proportion of franc bills and bonds held as cover against the notes issued by the Banque de Syrie et du Liban and its deposits increased sharply until, by the end of the war, it came to constitute over 95 per cent of their combined total 2/ However, from May 1943 until March 1946 sterling was made available in unlimited quantities to residents of both countries; and in 1944 the value of the franc holdings of the Banque de Syrie et du Liban was guaranteed against any depreciation of the franc in terms of sterling.

In the post-war period the inability of France to supply more than a small fraction of the non-franc foreign exchange requirements of Lebanon and Syria, together with its repudiation of its guarantee of the sterling value of their franc balances, 3/ caused the Syrian Government to take steps to establish an independent currency.

In February 1949 it left the franc area, and simultaneously an agreement was reached with France regarding the Syrian franc reserves held by the Banque de Syrie et du Liban. These holdings, which amounted to 10,204 million francs on 24 January 1948, were divided into two parts. The first, consisting of 7,015 million francs, used as cover for the note issue, was guaranteed in terms of sterling by the French Government for a period of ten years, starting in January 1946. Provision was also made for releasing this sum to Syria, in fourteen semi-annual instalments, by 1955. The balance of Syria's holdings, consisting of 3,189 million francs, was not guaranteed in terms of any other currency. After deduction of French claims on Syria, aggregating £S 23.2 million for property left in that country, the balance was to be deposited in a special temporary account, to be used for purchase of European currencies other than the franc, at the French official rates.

1/ United Nations Monthly Bulletin of Statistics. The retail prices index shows the same general movement, with a lag. It remained unchanged in 1950, at 478, rose to 556 and 594 in 1951 and 1952, respectively, fell to 544 in 1953, and continued to decline during the first half of 1954, standing at 482 in June.

2/ Said Himadeh, "Tatawwurat al naqd al suri al lubnani", Al Abhath, September 1949 (Beirut).

3/ Said Himadeh, "Hawl nashru al ittifaqia al malia al jadida", Al Abhath, March 1948 (Beirut). The French Government did, however, pay to Lebanon and Syria the difference resulting from the depreciation of the franc in December 1945.

436 In May 1949 the Government decreed that the unit of currency would henceforth be the Syrian pound, equivalent to 405.512 milligrammes of fine gold, and began depositing gold and foreign exchange as note issue cover.

652 In July 1949 agreement was reached with Lebanon regarding Syria's debt
436 on account of the Lebanese bank-notes, previously circulating in Syria and now withdrawn by the Syrian Government. The amount was fixed at LL 44 million and it was agreed that settlement would be made by payment of 4,078 million francs to Lebanon; most of this was paid in 1952.

On 28 March 1953 a legislative decree was promulgated, regulating the monetary system of Syria. A Money and Credit Board was established to co-ordinate and direct the activity of monetary and credit institutions. A Central Bank is also to be established; it will be administered by the Money and Credit Board, which is also charged with supervising and orienting the private banks 1/.

The law is being applied in stages. The Money and Credit Board was established in May 1953, and negotiations were started with the Banque de Syrie et du Liban, which at present issues the currency and enjoys several of the prerogatives of a central bank, regarding eventual transfer to the proposed Central Bank of the government deposits held by it and the assets and liabilities of its Issue Department. The concession of the Banque de Syrie et du Liban lapses in 1964, but the Government has declared that it will not necessarily wait until then to establish the Central Bank. In the meantime, the Banque de Syrie et du Liban continues to perform its previous functions.

The legislative decree provided that the cover of the note issue may consist of gold, foreign exchange, government bills and bonds, and advances made by the Central Bank; the percentage of gold and foreign exchange is not to fall below 30 per cent. On 31 December 1953, the gold and foreign exchange cover of the note issue amounted to £S 97.9 million at the official exchange rate - £S 156.7 million at free market rates; the latter figure represented 56.6 per cent of the value of the note issue; 79 per cent of the gold and foreign exchange cover consisted of gold, United States dollars or Swiss francs 2/.

Foreign exchange

457 Concurrently with these developments in the monetary system, steps were
439 taken to relax restrictions on foreign exchange, to stabilize exchange rates, and to organize the exchange market. The exchange control system established in

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1/ Ministry of Finance, Statut organique de la monnaie et creation de la banque centrale de Syrie (Damascus, March 1953).

2/ Bulletin issued by the Money and Credit Board, 5 January 1954. The total amount of reserves of gold and of currencies convertible into gold rose from £S 3.0 million at the end of 1948 to £S 8.2 million in 1949, £S 17.9 million in 1950, £S 29.1 million in 1951, £S 49.2 million in 1952, and £S 77.2 million at the end of 1953 François Crocco and Awad Barakat, La reforme du marché des changes en Syrie, (Damascus, 1954).

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December 1939 continued virtually unmodified until August 1948 1/. Exporters were required to hand over the proceeds of exports to the Exchange Control, while imports required a licence specifying whether they were to be paid for in foreign exchange supplied by the Exchange Control or out of the importer's own balances of foreign exchange, held abroad, or in Syrian pounds. Transfers of capital abroad were prohibited.

The enforcement of this system proved difficult, and in August 1948 a free market was legalized. Exporters were required to surrender to the Exchange Control only part of the proceeds of exports 2/. Importers were still required to obtain licences but had to pay for imports in exchange obtained from the free market, except where the Government allocated the necessary foreign exchange, for example for fuel 3/.

In September 1949 exporters were authorized to dispose of the whole proceeds of their exports. Imports were to be effected through the free market, or out of the importer's own exchange holdings. The official rate (£S 2.20 to the dollar, against a free rate of about £S 3.00 to £S 3.80) was applied only to certain companies operating under contract (principally the oil companies), which were required to buy 80 per cent of their needs of Syrian currency at that rate 4/. An Exchange Stabilization Fund was established, in conjunction with Lebanon, to moderate exchange fluctuations 5/.

In May 1950 an "exportation exchange market" was created. Whereas the proceeds of certain exports could be disposed of freely, proceeds of the most important exports to specified countries had to be repatriated and recorded with a bank as "exportation exchange"; the latter could be freely disposed of within the country but could be transferred abroad only in payment for licensed imports. Imports continued to be subjected to a licence, and could be paid for either in

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1/ In February 1948 transactions with the French franc area were made subject to exchange control.

2/ First fixed at 20 per cent, and reduced to 10 per cent in December 1948.

3/ Ministry of Finance, Exchange Office, Al taqrir al sanawi al awal, 1952 (Damascus, June 1953)

4/ International Monetary Fund, First Annual Report on Exchange Restrictions (Washington, D.C., 1 March 1950). In 1951 this proportion was reduced to 10 per cent.

5/ International Monetary Fund, International Financial News Survey (Washington, D C , 27 October . 9).

457 439 exchange obtained from the free market or in "exportation exchange", the rate of the latter being slightly lower. 1/

In April 1952 important changes were introduced. 2/ All restrictions were removed on transfer of capital to and from Syria, which were to take place on the free market. Exports of major products to most countries had to be paid for in prescribed currencies - in practice that of the importing country or a stronger currency - and repatriated. These proceeds could be retained by the exporter, but he was allowed to sell them only to an authorized bank, which recorded them as "exportation exchange". On the other hand, proceeds from invisibles could be freely disposed of on the free market. Imports continued to require licences and had to be paid for in exchange obtained on the free market.

457 An Exchange Office, which buys and sells through authorized banks, was established as the final authority on exchange matters. The Office hands over to the note-issuing authorities its holdings of gold or foreign exchange, which are deposited as note issue cover, and these authorities supply it with Syrian currency with which to purchase gold or foreign exchange. This provides a direct link between the foreign exchange operations and the note issue. The principal aims of the Office, in addition to that of establishing a foreign exchange market which would meet Syria's needs, have been to eliminate multiple exchange rates and to reduce fluctuations in exchange rates. 3/ The elimination of multiple rates was achieved by abolishing all transactions at the official rate, except for purchases of Syrian currency by oil companies and certain governmental disbursements; 4/ by quoting a single rate for "free" and "exportation" exchange, supporting this parity by operations in both markets; and, finally, in March 1953, by requiring banks to charge a single rate. 5/

The fluctuation of exchange rates, which had previously shown large seasonal swings, 6/ was greatly reduced: whereas the average exchange rate with the United States dollar fluctuated between £S 3.52 and £S 4.00 in 1950, between

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1/ International Monetary Fund, Second Annual Report on Exchange Restrictions (Washington, D.C., April 1951). Banks were allowed arbitrage between the free and exportation exchange markets.

2/ Cracco and Barakat, op. cit., and International Monetary Fund, Fifth Annual Report on Exchange Restrictions (Washington, D.C., 1954).

3/ Exchange Office, Al taqrir al sanawi al awal, 1952.

4/ These included foreign expenditure by diplomatic missions, students and some others; all such transactions were shifted to the free market rate in July 1953.

5/ International Monetary Fund, Fifth Annual Report on Exchange Restrictions, Page 290.

6/ The Syrian pound reaches its peak between June and September, when most crops are exported, and is at its lowest between December and March, when imports exceed exports.

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£S 3.50 and £S 3.83 in 1951, and between £S 3.55 and £S 3.09 in 1952, in 1953 it fluctuated between £S 3.57 and £S 3.72 and during the last seven months of the year remained stable at £S 3.50. But while the Office has damped seasonal movements it does not seem to have attempted to oppose or mitigate longer-term trends. In addition, in the second half of 1953, two measures were taken to give the exchange market greater flexibility. In July the Exchange Office began to quote daily forward buying rates for United States dollars, pounds sterling, French francs and Belgian francs; these rates were limited to foreign exchange derived from exports. And in August non-resident accounts opened with authorized banks could be overdrawn within the limits and during the time required for the settlement of normal commercial transactions. 1/ Transactions carried out by the Exchange Office rose from £S 302.2 million in 1952 to £S 676.2 million in 1953. 2/ A breakdown of the Office's operations shows that it drew on the sterling accruing to the Government at the official rate - mainly from petroleum companies operating in Syria, which in 1953 supplied £ 4.6 million (sterling) - and on its French franc balances, and sold sterling and francs to the market, purchasing with the proceeds gold, dollars and other currencies for use as note issue cover. 3/

Public finance

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Both expenditure and revenue increased very rapidly during the war years, expenditure from £S 10.9 million in 1939 to £S 99.1 million in 1945, and revenue from £S 11.4 million to £S 118.2 million, the increase was therefore somewhat greater than the rise in prices. A surplus was registered in every one of the war years, and in 1945 the Government Reserve Fund stood at £S 49 million; in 1946 there was a further surplus of £S 8 million. The increase in expenditure in subsequent years, due mainly to the war in Palestine and to increased expenditure on defence, was not matched by revenue, and every budget except that of 1952 showed a deficit; from 1947 to 1949, £S 32 million were withdrawn from the Reserve Fund. The draft estimates for 1953 and 1954 also show deficits.

1/ International Monetary Fund, Fifth Annual Report on Exchange Restrictions.

2/ In 1952, £S 29.1 million of purchases and £S 18.4 million of sales and in 1953 £S 29.5 million and £S 31.8 million, respectively, were effected at the official rate, the remainder at free rates.

3/ Net sales to the market in 1952 totalled £ 4.3 million (sterling) and 62 million French francs; net purchases of United States dollars were 9.8 million, of Swiss francs 1.1 million, and of Belgian francs 23.7 million. Corresponding figures for 1953 were 698 million French francs, and $ 12.8 million; purchases of sterling equalled sales (Ministry of Finance, Exchange Office, Annual Report, 1952 and 1953 (in Arabic) Damascus).